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Grain Procurement Interventions in November 2009

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Policy and Program Announcements

Approved By:

Mary Ellen Smith

Prepared By:

Yelena Vassilieva

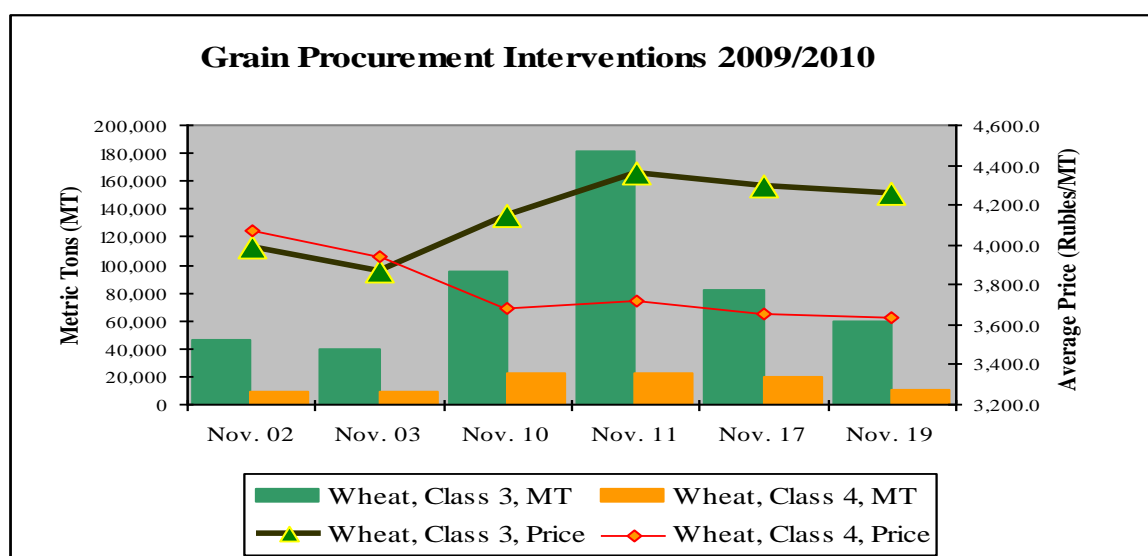
Report Highlights:

The Russian government started grain procurement interventions on November 2, 2009. As of November 19, 2009, the state agent spent 2.5 billion rubles (one fourth of the intervention money) and purchased 598,590 metric tons of milling wheat. As the remaining funds are not sufficient to make purchases which could support domestic grain prices, Deputy Prime Minister Viktor Zubkov tasked the Ministry of Agriculture with developing another scheme to support of Russian grain farmers.

General Information:

The state grain procurement interventions started on November 2, 2009. Six intervention sessions were held in November; the last one was on November 19, 2009. In the course of these sessions the Government purchased 598,590 metric tons (MT) of grain, including 503,010 MT of milling wheat Class 3, and 95,580 MT of milling wheat Class 4. At the beginning of interventions 784 agricultural were accredited for participation and they offered 5.4 MMT of grain for sale. The average procurement price for the first session dropped to 3,985 rubles/MT (\$133^[1]) for the milling wheat Class 3, and to 4,072 rubles/MT (\$136) for the milling wheat Class 4. These prices were 28 percent and 17 percent less than the ceiling intervention prices announced by the Agricultural Minister in March 2009. In the 3rd and the 4th sessions prices increased, but still were lower than the ceiling price (Graph 1). The federal budget allocated 9.5 billion rubles (\$317 million) for intervention purchases; therefore at these prices the fund can purchase maximum 2.5 MMT of grain.

Graph 1.



Source: web-site http://www.micex.ru/markets/commodity/purchasing_interventions_eight/results

The average procurement prices varied by crops and by regions (Table 1), but everywhere these prices were above market prices. In mid-November, 2009, the EXW price of milling wheat Class 3 was 3,920 rubles/MT in the Central European Russia, 3,780 rubles/MT in the Volga Valley, and 3,250 rubles/MT in Siberia. The EXW prices of milling wheat Class 4 were 3,320 Rubles/MT, 3,380 Rubles/MT, and 2,350 Rubles/MT respectively^[2]. Farmers pay 100-200 rubles/MT for

delivery of procured grain; but their returns from intervention sales are still higher than from selling grain commercially. Farmers' access to intervention sales may depend on good connections with administrations or affiliated companies. Rosagroleasing, Russia's monopoly supplier of agricultural machines and equipment to farmers, consults farmers, who borrowed equipment from them, on selling grain to the intervention fund. Many believe that these consultations facilitate farmers' access to state interventions.

In the course of the six sessions, interventions were held for farmers in the Central, Volga Valley (without Orenburg oblast), and Siberian Federal Districts. Farmers in some provinces of the Southern Federal District, including Stavropol kray, Russia's second largest grain producer, also reported their readiness to participate in interventions. However, the Ministry of Agriculture postponed their participation indefinitely. Mass media reports that some provincial authorities in Southern Russia appealed to the federal Ministry of Agriculture, but were informed that farmers in the South have better access to ports and that the grain procurement interventions may not happen in the Southern Federal District at all.

Table 1. Average Intervention Prices, by Federal Districts, Rubles/MT

Milling Wheat, Class 3						
	Nov. 02	Nov. 03	Nov. 10	Nov. 11	Nov. 17	Nov. 19
North-Western FD					5,200	
Central FD	5,174	4,950		4,648		
Volga Valley FD (without Orenburg)	4,312	4,123	3,844	4,189	3,827	4,227
Siberian FD	3,232	3,290	4,750	4,802	4,140	4,016
Milling Wheat, Class 4						
North-Western FD						
Central FD	4,497	4,155		3,550	3,881	3,897
Volga Valley FD (without Orenburg)	3,505	3,347	3,273	3,538	3,129	3,150
Siberian FD						

Source: web-site http://www.micex.ru/markets/commodity/purchasing_interventions_eight/results

Some Russian experts consider that in MY 2009, grain procurement interventions will not help to stabilize domestic grain prices, and will not help domestic grain producers to cover their expenses. Meantime, the Russian Prime Minister Viktor Zubkov tasked the Agricultural Ministry to develop an alternative scheme to support grain farmers. The scheme is called "grain mortgage interventions". The Head of the Russian Grain Union Arkadiy Zlochevskiy described the principles of these "mortgage interventions", and told that these interventions might begin in MY 2009. The following scheme is proposed: farmers will deliver grain to the state agent for storing,

and will be able to get loans from the agent (grain will be a collateral); farmers will use the borrowed money for re-payment of previous debts and for covering operating expenses; then, if the market price of grain increases, farmers will be able to sell grain (stored at the agent) at the market price and to re-pay their loan to the agent. If the market price is not attractive, the grain will remain with the agent. Meantime, some experts consider that this scheme implies additional, significant federal budget financing in the coming years. First, the agent will need significant financial resources for initiating the credit program; second, it is not clear, who and at what level will set the minimum price for grain; third, low market prices in the first year would lead to accumulation of huge grain stocks at the state agent. In order to manage these stocks, the state agent will require ample storage facility and/or expensive state programs for exporting this grain. At present, the Russian state agent (United Grain Company) has neither ample storage, nor government grain export programs. It might take more than a year to develop state grain infrastructure and develop export markets for the government owned grain.

Relevant Reports

RS9067 _ Grain and Feed _ Grain Interventions Begin in November

RS9068 _ Grain and Feed _ November Update

^[1] Exchange rate is 30 rubles for \$1.

^[2] Average data is based on ProZerno's weekly data on grain market prices.